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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

RESPONSE OF U S WEST, INC. TO RECOMMENDED DECISION

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U S WEST, Inc. ("U S WEST") herein comments on the Recommended Decision issued by the Federal-State Joint Board ("Joint Board") on November 8, 1996.[1] That Decision is a lengthy one and, with few exceptions,[2] addresses virtually every aspect of the provision of universal service into the next century. In many respects, the Recommended Decision reflects analyses and recommendations supported by sound cost/benefit analysis and public interest considerations. In some respects, however, the Decision adopts positions or theories that clearly go beyond sound economic and regulatory analyses. In these Comments, U S WEST focuses primarily on those issues.

[1] In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Recommended Decision, FCC 96J-3, rel. Nov. 8, 1996 ("Recommended Decision" or "Decision"). The Common Carrier Bureau ("CCB") sought comment on this Decision on Nov. 18, 1996. See Public Notice, Common Carrier Bureau Seeks Comment on Universal Service Recommended Decision, CC Docket No. 96-45, DA 96-1891, rel. Nov. 18, 1996 ("Public Notice").

[2] See note 7, infra.

I. INTRODUCTION AND SUMMARY

Below, U S WEST's comments are divided into nine sections. Section II stresses the need for the Federal Communications Commission ("Commission") to craft a universal service policy that seeks to maximize affordable service, while at the same time maintaining a reasonably sized universal service fund (or "USF"). We believe this can best be accomplished by focusing the competitive neutrality the Joint Board recommends be added as a guiding universal service principle[3] on carrier investment rather than on ongoing service provision.

In this part of our Response we address the difficult issue of capital recovery in an environment where economic wholeness is dependent on monthly payments in a context of portable universal service payments. We no longer are confident that such a model makes sense, either from the perspective of sound social policy or economic reality. Thus, we propose a different model to assure carriers cost recovery for those investments they make in the name of "universal service" -- investments that may be far from prudent, if not supported by those seeking to advance an independent social welfare goal.

The Commission has acknowledged that its interconnection, universal service and access reform proceedings form a type of trilogy of regulatory jurisprudence and that each is integrally intertwined with the other from both policy and economic

[3] Decision ¶ 23.

perspectives.[4] Because of the integrated nature of the issues associated with these various subject matters, U S WEST is growing increasingly concerned about capital recovery. We do not see the Commission's First Report and Order[5] as ensuring such recovery, for either historic or future investment. And, as we now consider the implications and ramifications of the remaining portions of the trilogy, we become increasingly concerned that this economic recovery will continue to be passed off to the "next proceeding in line," with no proceeding actually providing the kind of economic discipline and rationale analysis necessary to protect U S WEST and its shareholders from uneconomic or stranded investment.

Additionally, upon reflection, U S WEST has become convinced that while "competition" in a general sense plays an important role in the matter of universal service, the primary focus of the achievement of universal service as a social policy should be affordable service. Such is not necessarily accomplished by allowing end users to uneconomically choose between multiple service providers in high-cost areas for ongoing monthly service. Such can be achieved, however, by allowing

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[4] See Remarks of Commissioner Susan Ness Before the Northern California Chapter, Federal Communications Bar Association, Nov. 18, 1996. Compare Separate Statement of Commissioner Julia Johnson and Chairman Sharon L. Nelson at 9-10 ("Separate Statement of Johnson/Nelson") describing this effort as books of a "quartet," those books being comprised of interconnection, universal service, access charge reform and separations.

[5] In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers, CC Docket Nos. 96-98, 95-185, FCC 96-325, rel. Aug. 8, 1996 ("First Report and Order").

multiple providers to compete for investment opportunities associated with serving an end user, ensuring that the investment opportunity is fully realized.

Thus, U S WEST can no longer support a high-cost USF distribution model that requires carrier investment up-front, but provides for recovery of that investment through monthly payments -- with free end-user choice to "leave" the providing carrier at will. Such a model does not advance rational economic policies because it creates the very real potential that carriers will not be able to recover their investments. In creating this risk, it also creates opportunity for economically irrational customer choices. Nor does such a model serve sound universal service social or welfare policy, i.e., that necessary services are supported to those that cannot afford them or should not be expected to foot the entire bill.

Thus, herein U S WEST proposes a distribution methodology where certain of the USF dollars go to cashing out carrier investment and allowing for expense recovery over time. We explain our proposal more fully below.

In Section III U S WEST addresses the propriety of a unified USF (one assessed from interstate carriers, but utilizing both inter- and intrastate service revenue).[6] U S WEST supports a unified fund both with respect to services to schools and libraries (as recommended by the Joint Board) as well as with respect to high-cost support funding. We believe there is ample legal authority to support the Joint Board's recommendation of a unified fund for schools/libraries and urge the Commission to adopt such a model with respect to remaining USF funding issues,

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[6] Decision ¶ 12.

as well.[7] We dispute the propriety, however, of the Commission reducing the existing Subscriber Line Charge ("SLC") concomitantly with the adoption of such a unified fund in a high-cost fund context.[8] The SLC should not be reduced. Quite the contrary. There are sound economics for increasing the SLC, as discussed further below.

Section IV addresses the scope of support from the USF (i.e., primary residence, first line, etc.) and the proposed Joint Board-recommended definition of "service area." With respect to the former, while U S WEST understands the theoretical basis of the recommendation (i.e., that USF support be provided for the high-cost of telecommunications service to certain individuals in need of such support), we find the proposal at odds with existing common carrier obligations, which generally require that second and multiple "subsidized" lines be provided to residences.

To the extent the Commission adopts the Joint Board's recommendation, it should declare concomitantly that carriers providing service in high-cost areas can decline to make additional investment (i.e., that services above the primary line are

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[7] Universal service funding is required with respect to three objectives: high-cost support, schools/libraries/health care and the conversion of implicit supports in existing carrier rates and prices into explicit supports and recoveries. The Recommended Decision really addressed only the first two of those components, generally addressing the third only indirectly, e.g., by noting that there was further work to do on implicit supports. While that is certainly correct, the Commission must not ignore the fact that the USF will need to create a vehicle for recovery for implicit supports that are not otherwise recovered when made explicit through the remaining two proceedings (e.g., access and separations reform). U S WEST supports a unified fund with respect to this latter component of a USF, as well.

[8] The Joint Board made such a recommendation. Decision ¶ 11.

deregulated). Alternatively, the Commission should reject the Joint Board's recommendation and leave multiple lines and multiple residences as potential recipients of USF dollars, primarily because to do otherwise is burdensome to administrate.

With respect to the service areas qualifying for high-cost funding, we support the Joint Board's recommendation that a "service area" need not be absolutely coincident with a high-cost "targeted area" receiving universal service high-cost support, and should not be "unreasonably large."[9]

In Section V, U S WEST describes our continued support for the Federal Funding Benchmark ("FFB") as the best basis for monetary distributions from the USF (as opposed to "average revenue per line" as recommended by the Joint Board). The $30 FFB recommended by U S WEST produces a reasonably sized fund. It also benefits from the fact that it is not higher than the highest statewide average residential rate in the United States generally (a rate deemed basically "affordable" under the Joint Board's analysis) and correlates fairly well to 1% of the national median income figure.

We oppose the Joint Board's "average revenue per line" approach because the figure improperly includes "implicit subsidies," in the nature of vertical services revenue, that is contrary to the intent of Congress, incapable of being sustained over time, and certain to create a substantially larger fund than would result utilizing a $30 FFB.

[9] Id. ¶¶ 6, 175.

Section VI addresses the matter of proxy models. Again, U S WEST throws our support behind the Benchmark Cost Model 2 ("BCM2"), particularly as the BCM2 has been embellished and improved by incorporating changes proposed by others that appear calculated to improve the output of the BCM2. We demonstrate in this part why the Hatfield Model is an inappropriate model to support the determination and implementation of high-cost funding requirements.

In Section VII we address the Joint Board's recommended funding mechanism, i.e., gross retail revenues net payments to other carriers.

Section VIII addresses matters which pertain specifically to the Joint Board's recommendations with respect to schools and libraries. In this discussion, we point out that the "lowest corresponding price" recommendation of the Joint Board is not realistic, especially in the context of a bidding process conducted in accordance with the bidding methodology normally used by state and local governmental entities.

In Section IX U S WEST addresses matters pertaining particularly to rural health care providers. We argue therein that carriers should be able to secure their investments up-front with respect to services to rural health care providers. Furthermore, we continue to support a flexible designation of services eligible for universal service support.

In Section X, the conclusion of U S WEST's Response, we discuss the challenges facing the Commission in crafting an economically sound, fiscally responsible and socially accommodating universal service program, in light of other relevant and material proceedings that impact such program. We urge the

Commission to keep in mind certain fundamental legal and economic precepts so that the ultimate universal service funding model remains true to legislative mandates while accommodating the clearly changed legal and market environment from that which was in place with regard to prior universal service initiatives.

II. A FUND DISTRIBUTION MECHANISM MUST PROPERLY ENSURE THAT UNIVERSAL SERVICE CONSTRUCTION COSTS ARE RECOVERED BY THE CONSTRUCTING CARRIER

Herein, U S WEST stresses the necessity for any universal service funding/distribution model in high-cost areas under the Act to assure telecommunications carriers providing eligible services total recovery of their capital investment associated with the provision of such services. Currently, the Recommended Decision suggests a model that would likely ensure such recovery with respect to services to schools and libraries, but not with respect to services to high-cost and insular areas or rural health care providers. To the extent the Commission desires to promote competition through payments from the universal service fund (a goal that U S WEST is not confident is a proper social goal for a "universal service" fund),[10] carriers making long-term investments (often with payback periods exceeding 20 years) to construct the facilities to end users in designated high-cost areas must be assured the recovery of costs in excess of the benchmark investment -- something that cannot occur with monthly payment structures and totally "portable" support.

[10] Competitive neutrality, an appropriate guiding principle for universal service purposes, is not the equivalent of promotion of competition.

In our previous comments to the Joint Board in this proceeding, U S WEST generally supported the notion that providers of universal service should receive an amount from the fund each month representing an average cost of providing service within a Census Block Group (or "CBG") compared to a benchmark price of service for that area (with U S WEST proposing a FFB of $30).[11] For each loop offered within a CBG by any carrier, the offering carrier would receive the prescribed monthly amount.[12] This amount would be portable, i.e., whatever carrier served the loop customer would receive the universal service amount, regardless of the carrier's actual costs in providing service to the individual customer or average costs of providing costs within the census block. The Recommended Decision generally tracks this basic analysis,[13] which was in tune with the positions of a wide variety of commentors.[14]

Upon reflection, there appears to be a major flaw in this approach to universal service. Namely, carriers constructing universal service facilities at the behest of the government would not be assured of recovery of their full costs of construction. This is because the universal service support attendant to construction of particular universal service facilities (that is, facilities which would not have been constructed by the carrier if the price which could be charged for

[11] See Comments of U S WEST, filed herein Apr. 12, 1996 at 2, 8-9, 12.

[12] See id.; see also Response of U S WEST, filed herein Aug. 2, 1996 at 2-5.

[13] See Decision ¶¶ 155-62, 309-17.

[14] See id. ¶¶ 140-47, 302-08.

service were limited by governmental regulation to universal service levels) could easily disappear prior to recovery of the construction cost of the facility.

The recovery mechanism could easily be disrupted by a competitor, at some time during the depreciable life of the facility, installing a different facility to the customer and obtaining the universal service support which had been targeted to construction of the original facility (and reliance upon which such construction had been undertaken in the first place). Indeed, because of the absence of any direct relationship between construction of a universal service facility and recovery of the cost of such construction, there would be little assurance that the construction cost of a universal service facility would ever be recovered, even if no other carrier actually displaced the constructing carrier or the universal service fund support recipient.

If the investment in question could be recovered relatively quickly, this problem might not be acute. But the loop investments dealt with in the Recommended Decision could have payback periods stretching over decades. A 20-year investment which cannot be recovered will not, in the long term, serve anyone's interests. Further investment mandated by the government cannot be justified. A simple example illustrates our concern. Assume that a loop in a high-cost area costs $4,000 to construct. If the universal service price of the same loop permitted recovery of $1,500 of the investment (i.e., investment supportable by the benchmark), this would leave the carrier with a demand against the universal service fund of $2,500. In most circumstances, the constructing carrier would have not built the loop without the ability to recover this cost difference from the universal service fund. Similarly, in a competitive marketplace, the government would have no ability to order such construction without affording the mechanism for such cost recovery.

Under the proposed USF rules, the risk to the constructing carrier that its high-cost investment of $2,500 would not be recovered would be substantial. Indeed, if five years later a new carrier came in and won the customer served by the universal service facility, the universal service support upon which the initial investment had been predicated would shift to the new carrier, and governmentally mandated construction will have been left uncompensated. This situation would lead to serious legal problems for the administration of the USF or, more likely, governmental liability to the investing carrier for the uncompensated amount.

To deal with this problem, U S WEST proposes that new high-cost construction be financed by the USF *via* an up-front payment to cover the difference between the investment actually made by the carrier and the universal service investment component (i.e., the monthly universal service support amount over the depreciable life of the asset). This difference (in the above example, the amount of $2,500) would be paid to the constructing carrier. This amount would be subject to appropriate adjustments in the event of a mismatch between asset life and payment period. Except for universal service payments (if any) to reflect the fact that cash operational expenses in the high-cost area may be higher than the price benchmark would permit, no further payments to the carrier would be made based on the particular construction of the universal service facility.

This approach is analogous to the investment tax credit ("ITC") which federal and state governments have utilized to encourage companies to invest in an area in which they otherwise might find it uneconomical to invest. The ITC provides an immediate reduction in taxes payable for the invested amount (i.e., 10%). The ITC reduces the cash outflow to a level which makes the investment risk acceptable.

One important advantage of this approach is competitive neutrality. Obviously, if the carrier which had received the construction support could use it as a vehicle to keep other competitors from entering the market, the goal of competitive neutrality could not be met. By the same token, the universal service provisions of the 1996 Act and the Recommended Decision are predicated on the conclusion that there are geographic areas in the country where telecommunications competition will not produce rate levels deemed to satisfy the public interest. U S WEST proposes that the Commission treat the competitive neutrality issue as follows.

First, the universal service support amount received by a carrier should be accounted for in calculating the cost of a facility constructed with universal service support when this facility is purchased as a network element by a competing carrier. We agree that, at least once embedded incumbent local exchange carrier ("ILEC") network costs have been properly amortized, some version of forward-looking costs will dictate network element prices. A properly constructed forward-looking cost in high-cost areas will reduce the investment cost of an unbundled loop.

Under this approach the benchmark investment becomes an input to the forward looking cost calculation. U S WEST submits that such a formula should initially be part of the negotiation/arbitration process before state regulatory authorities, subject to possible intervention by this Commission under Section 253 of the Act, if necessary.

Second, it is necessary that all carriers, not just ILECs, have an opportunity to compete for the up-front universal service support payments recommended herein. U S WEST recommends that any carrier be allowed to win a new customer, add facilities, and collect from the high-cost fund. Resellers and purchasers of unbundled elements will benefit from the lower charges that reflect the USF support, but would not be able to draw on the fund directly.

Third, U S WEST recognizes that this approach to up-front payments covering the full cost of construction of a universal service facility (actually, the fully supported cost -- the cost which the carrier can recover through rates is not covered by universal service support) would seem to preclude universal service support for a second facility duplicating the one constructed with universal service support. We submit that, except upon an extraordinary showing, a second carrier should not be able to obtain universal service support for a duplicative facility. The Commission must recognize that governmental funding of universal service may not always be completely consistent with maximization of competition.

In this regard, we note that a situation in which there is genuine competition for the construction of universal service facilities might not present the same need for guaranteed universal service support payments. U S WEST's concern here is that we not be required by government *fiat* to construct facilities against our will. If multiple bidders appear for the construction of a facility (or service to a particular area), the Commission will have more leeway in determining what type of guaranties to provide for universal service cost recovery. Of course, the nature of the guaranty will also determine the attractiveness of the area for competitive bids.

In addition, we recognize that, at least at this time, most high-cost facilities have already been constructed and are in place. These facilities also cost more to provide than they generate in revenue. It would make little sense to have existing facilities subject to one support mechanism and new facilities subject to a totally different support mechanism. Accordingly, we recommend that existing universal service facilities be brought into line with new facilities as follows. U S WEST recommends that high-cost support of existing investment (i.e., up-front placement cost) be identified prior to implementation of the new mechanism. Using the example described above for new investment, the high-cost investment differential of \$2,500 (\$4,000-\$1,500) would be identified for all high-cost areas using a forward-looking cost model (i.e., BCM2). Since this plant is already partially recovered, the \$2,500 would be reduced to reflect the depreciation already recorded (e.g., 30%). In our example, the \$2,500 would be reduced to \$1,750 to reflect \$750.00 depreciation recorded previously ($2,500 x 30%). This $1,750 would then be frozen and amortized over a reasonably short period (i.e., five years).

In the long run, this approach would greatly reduce the size of the USF because it would be used solely to finance high-cost operating expenses and new construction. As these existing universal service facilities are real facilities used to provide universal service, the payments represented by the universal service costs thus calculated would be non-portable payments which would not be cut off by subsequent developments during the amortization period.

Finally, payments for upgrades or rebuilds of loop facilities need to be considered. If additional universal service support is not forthcoming for upgrades, carriers may lose the incentive to modernize service in high-cost areas. U S WEST recommends that upgrades be treated as new construction for universal service purposes. Conceivably, this could result in a bifurcation of universal support for a single facility (constructed by one carrier, upgraded by another). However, as both construction and upgrade support would be finite for any given facility, this problem does not seem particularly severe.

U S WEST submits that a universal service funding mechanism which guarantees that no carrier will be compelled by the government to construct facilities in the absence of compensation is essential if the fundamental universal service principles of the statute are to be met consistent with the basic right of carriers to conduct business in a competitive marketplace free of uncompensated governmental compulsion. The proposal submitted herein would achieve this goal as follows:

- Carriers have an incentive to make long term investments in high-cost areas.
- Carriers have an incentive to upgrade facilities in high-cost areas.
- The customers benefit from competition because resellers and purchasers of unbundled elements receive the benefit of the support payments.
- The government is not encouraging wasteful investment in areas they are attempting to attract any investor to invest in.
- The medium would be reasonable and competitively neutral.

III. A UNIFIED INTERSTATE/INTRASTATE FUND IS EMINENTLY SENSIBLE, WITH RESPECT TO THE SCHOOL/HEALTH CARE FUND, BUT ALSO FOR THE HIGH-COST, INSULAR AREA FUNDING. A REDUCTION IN THE SLC SHOULD NOT, IN ANY EVENT, BE A PART OF THE SUPPORT DESIGN.

A. A Unified Fund Is In The Public Interest And Supported By Statutory Language.

The Joint Board recommended a unified fund (including both interstate and intrastate revenues from interstate telecommunications carriers) as the funding base for the school/library portion of the universal service fund.[15] U S WEST supports this recommendation. Further, we support the same funding model for the high-cost/insular support component of the USF, seeing no logical reason why such a model makes sense only for schools and libraries and not for high-cost areas. The

[15] Id. ¶ 573.

logical and legal support for such a unified fund appears to be the same,[16] regardless of what is being "supported" by the dollars flowing out.[17]

Section 254, read in its entirety, certainly can be read to support a unified USF, not just for schools and libraries but for high-cost and insular support, as well as for the recovery of implicit-made-explicit subsidies. For example, Section 254(b), in its articulation of "Universal Service Principles," strongly articulates a fundamental joint federal/state interest. The "[q]uality services" referenced therein are to be provided at "just, reasonable, and affordable rates"[18] for all American citizens with respect to the totality of their telecommunications services. Similarly, "[c]onsumers in all regions of the Nation" are to receive identified services at rates "reasonably comparable" between urban and rural areas.[19] Furthermore "[a]ccess to

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[16] Compare Separate Statement of Commissioner Susan Ness at 3 ("Separate Statement of Ness") (noting that it was "regrettable" that the Joint Board recommendation for a unified fund pertained only to the school/library component).

[17] For example, in Separate Statement of Johnson/Nelson at 5, it is noted that the goal of the school and library program "is to explicitly fund the education of the next generation" and this "is a social policy that is in the interest of the Nation, both economically and socially." Similar observations can be made about supporting telecommunications services in high-cost and insular areas. Those services are meant to form the communications backbone for all citizens of the United States to be able to communicate with each other and to enhance the efficiency and productivity associated with ubiquitous communications technologies and capabilities. And, as importantly, similar arguments can be made with respect to the "implicit-made-explicit" funding mandate associated with universal service funding. See note 7, supra and further discussion below.

[18] 47 USC § 254(b)(1).

[19] Id. § 254(b)(3).

advanced telecommunications and information services" are to be "provided in all regions of the Nation."[20]

To accomplish these legislative-mandated objectives, "[a]ll providers of telecommunications services" are required to "make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service."[21] The only fair reading of these requirements is that "in its entirety . . . [it] does not in any way limit the Commission from setting up a reasonable methodology to calculate an interstate carrier's contribution to the program. If Congress had intended that the system be funded entirely by contributions based solely on *interstate* revenue of interstate carriers . . . it would have been more specific."[22]

Furthermore, a decision to proceed with a unified fund would not work any type of hardship on states. Under prevailing federal tax jurisprudence, they would have equal flexibility to create a unified fund.[23]

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[20] Id. § 254(b)(2).

[21] Id. § 254(b)(4) (emphasis added).

[22] Separate Statement of Commissioner Rachelle B. Chong ("Separate Statement of Chong") at 12.

[23] See, e.g., Goldberg v. Sweet, 488 U.S. 252 (1989) (upholding a state excise tax imposed on the gross charges of interstate telecommunications originated or terminated in a state). See also Separate Statement of Chong at 13 (citing to 47 USC Section 254(f), and observing that "Congress did not mandate that only intrastate revenues be used in a contribution methodoloy, but clearly gave the States the discretion to develop a methodology 'in a manner determined by the State.'").

While the law of a particular state might prohibit the taxing of interstate services or revenues (see Separate Statement of McClure at 2-3), such is not compelled by federal legal imperatives. Goldberg v. Sweet, supra.

For other reasons, as well, the total revenue approach to fund contribution makes sense. As Congress surely recognized in opening the doors for the convergence of technologies and industries in the 1996 Act, "it will become increasingly difficult to distinguish between interstate revenues and intrastate revenues in the future, because this distinction is a backwards looking one based on a monopoly era."[24] Certainly, then, Congress was moving away from this "backward era" in its passage of the 1996, not toward it. To assume that Congress specifically had a more "separate" or "bifurcated" direction or plan in mind is not borne out by the language of the Act.

From a purely regulatory perspective as well, the difference between "interstate" and "intrastate" services, so important for jurisdictional separations purposes, is becoming less meaningful. While ILECs formally separate their investments, costs, and revenues into interstate and intrastate components, other carriers are under no compulsion to undertake such an exercise and generally do not do so. A USF levied on "interstate" revenues only would create opportunities for

[24] Separate Statement of Chong at 12. Compare Separate Statement of Johnson/Nelson at 8 ("As the technology converges and carriers begin to enter each others' markets, it is unclear that the traditional distinctions between interstate and intrastate carriers will retain their current meaning."). And see Decision ¶ 310 (nothing that because of this phenomena the Commission would need to review the benchmark on a periodic basis in order to make appropriate adjustments); id., ¶ 317 (nothing the "changing nature of the telecommunications marketplace;" and suggesting that "[s]ome carriers may package local and long distance services as part of their array of service offerings to the public in order to distinguish themselves from other providers of telecommunications services.").

carriers that do not separate their revenue pursuant to regulatory directives to potentially avoid proper payments through creative use of an "intrastate" analyses.

Given all of the above, U S WEST submits that the only really workable assessment is one based on total carrier revenues, as is proposed. While there are those that attack this funding model, both on the grounds that such is inconsistent with Congressional intent as well as sound federal/state separations legal precedent,[25] there is ample support for the Joint Board's recommendations. First, the fact that Congress specifically directed a federal-state Joint Board to address the myriad issues associated with universal service support and its implementation strongly suggests that Congress desired precisely the kind of joint resolution suggested by a unified fund.[26] Second, the fact that the promulgation of a unified fund such as is proposed in the Recommended Decision would not operate adversely to independent state actions, as discussed above, suggests that it is not an unlawful or inappropriate approach to funding.

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[25] See Separate Statement of Commissioner Kenneth McClure ("Separate Statement of McClure"), generally; and Separate Statement of Commissioner Laska Schoenfelder ("Separate Statement of Shoenfelder") at 6-7. Compare 47 USC § 254(d). That statutory language specifically requires "every telecommunications carrier that provides interstate services" to contribute to the USF. To the extent those carriers also collect intrastate revenues, there is certainly nothing precluding their inclusion.

[26] Compare Separate Statement of Johnson/Nelson at 2 ("Section 254 of the Act specifically addresses universal service and the need for the states and the FCC to work in concert to develop universal service policy recommendations on revisions to the high cost assistance program as well as the establishment of new mechanisms such as the discount program for K-12 schools and libraries.").

Finally, from a funding perspective, a unified fund makes sense, since a larger funding base will reduce the size of the overall surcharge needed to recover the contributions. For all the above reasons, U S WEST urges the Commission to adopt a "unified" fund approach to universal service support implementation with respect not just to schools and libraries but to high-cost area support, as well.

B. <u>In No Event Should There Be A Reduction In The SLC.</u>

Once a high-cost unified fund is created, however, U S WEST disagrees with the Joint Board recommendation that the SLC should be reduced. While we appreciate the extent to which this position is supported by consumer advocates,[27] it does not make sound economic or logical sense. Indeed, given the role the SLC plays in the recovery of loop investment, it should be increased generally -- not reduced in any circumstance.

U S WEST agrees with Commissioner Chong that the proposal that the SLC be decreased suffers from both "procedural and policy" infirmities.[28] Addressing the infirmities in reverse order, "the Joint Board's recommendation to reduce the SLC is bad economic policy that contradicts the Commission's long standing goal to promote economic efficiency and cost causation. . . ."[29] When the SLC was introduced, it was devised as a mechanism to recover loop investment that was allocated to the interstate arena through separations rules. Even though it was

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[27] <u>See</u> Separate Statement of Martha S. Hogerty, <u>generally</u>.

[28] Separate Statement of Chong at 11.

[29] <u>Id.</u> at 11-12.